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C O N F I D E N T I A L SECTION 01 OF 02 TRIPOLI 000842

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SUBJECT: CENTRAL BANK GOVERNOR TAKES LONGER VIEW OF REFORM PROCESS  
THAN AL-QADHAFI

REF: A) TRIPOLI 827, B) TRIPOLI 227

CLASSIFIED BY: Chris Stevens, CDA, Embassy Tripoli, Department  
of State.

REASON: 1.4 (b), (d)

11. (C) Summary: In a meeting with a visiting U.S. trade specialist, Libya's Central Bank (CB) Governor shared his views on implementing Muammar al-Qadhafi's vision of government restructuring and distributing the country's oil wealth directly to the population. In contrast to al-Qadhafi's insistence that the wealth distribution program begin by year's end and be fully implemented shortly thereafter, the CB Governor expects the process to take several years. End summary.

12. (C) Public Affairs-sponsored visitor Bruce Stokes, a trade specialist with the National Journal, met with Libya's Central Bank Governor, Farhat Bengadara on October 13. Stokes was accompanied by CDA, PAO, Econoff and PA Assistant. (Note: Bengadara is one of our more impressive and candid interlocutors on banking and financial matters. Young, intellectually curious and dynamic - there is always a stack of books on current affairs, which he reportedly devours, on his desk - there is criticism that he is unqualified. He is reportedly a protege of Saif al-Islam al-Qadhafi, son of Muammar al-Qadhafi, who strongly advocated his selection as CB Governor. End note.) Among other topics such as the global financial crisis (ref A), Bengadara spoke at length about Libya's financial situation and its plans to restructure existing government structures and distribute oil revenues directly to Libyans as part of a program of radical privatization (ref B).

13. (C) Conceding that Libya's ambitious infrastructure and development programs would likely be adversely affected if oil prices continue to fall (the GOL's 5-year plan is based on a price of USD 65/barrel) and that attracting foreign investment could be harder in light of the global financial crisis, Bengadara said Libya's development plans would have to be reconsidered and adjusted. Asked whether slumping oil prices would slow implementation of reforms proposed by Muammar al-Qadhafi, he said it was more likely that infrastructure development would be postponed.

14. (C) Addressing al-Qadhafi's proposed reforms, Bengadara said he favored a strong "shock therapy" approach that would jump start the transition from a largely statist economy to one with a more robust private sector. Taking issue with GPC Secretaries (minister-equivalent) who advocate a more gradual approach, Bengadara said he preferred direct cash payments to Libyans (in line with al-Qadhafi's proposal) to a continued program of price

supports for key commodities and services; however, he conceded that details for implementing direct distribution of oil revenues had not been finalized. In contrast to al-Qadhafi's insistence in major public addresses earlier this year that direct wealth distribution be inaugurated by year's end and be fully implemented soon thereafter, Bengadara said he expected the program would take two to three years at a minimum, and likely five to ten, to fully realize. He offered that once a plan had been finalized, it would likely have to be approved by the General People's Congress before it could be implemented.

15. (C) Reiterating themes he touched on in our meeting with him in March, he said a program of direct wealth distribution could undermine parallel efforts by the GOL to encourage entrepreneurial enterprise and a more robust private sector. Noting that Libyans did not have a strong work ethic, he expressed concern that after years of living in a system of oil-funded cradle-to-grave subsidies, prompting people to be more self-reliant was a challenge. Direct wealth distribution could disincentivize them to work at all, but the proposed reforms could help temper that effect. For example, health and education would no longer be free in the future and there would be competition, which he viewed as the necessary driving force of the economy.

16. (C) The fact that 95 percent of the economy currently comprises government entities - something "not correct if you want to accelerate growth" - put a premium on accelerating privatization. Bengadara said he saw merit in the U.S. economic system and admired companies like General Electric, with its vast numbers of shareholders; however, during times of crisis large numbers of ordinary people were hurt in capitalist systems. Libya was striving for "people's capitalism," which he described as something between socialism and capitalism. A first step would be to develop public-private partnerships, particularly in non-oil sectors.

TRIPOLI 00000842 002 OF 002

17. (C) Comment: The fact that details for a plan to implement direct wealth distribution, together with Bengadara's candid assessment that the process is likely to take multiples of years, vice months, suggests that al-Qadhafi's vision of distributing checks to Libyan families by early next year is unrealistic. In our meeting with him in March, Bengadara advocated a basket of subsidies, stock and cash as opposed to lump sum payments, but expressed frustration that Libya's limited bureaucratic capacity made such a scheme difficult. His remarks in our most recent meeting suggest that he has modified his thinking and may be leaning towards a heavier cash component of the proposed wealth distribution program. End comment.  
STEVENS